

OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: December 31, 2019

RE: IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR APPROVAL OF A RATE INCREASE. (DOCKET NO. W-03718A-09-0359)

SUBJECT: CAGRD ANNUAL ADJUSTOR FEE RESET

INTRODUCTION

Enclosed are the Commission Staff's Memorandum and Proposed Order in the matter of the application of Sahuarita Water Company, LLC for a rate increase (Docket No. W-03718A-09-0359). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by filing an original and thirteen (13) copies of the comments with the Commission's Docket Control Center at 1200 W. Washington St., Phoenix, AZ 85007 by 4:00 p.m. on or before **January 10, 2020**.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **January 14, 2020**, at 10:00 a.m. and **January 15, 2020**, at 10:00 a.m.

If you have any questions about this matter, please contact Tanya D. Pitre of our Staff at (602) 364-1608, or Elijah O. Abinah, Director, at (602) 542-6935.

BACKGROUND

On October 23, 2019, pursuant to Decision No. 72177 (February 11, 2011), and as modified by Decision No. 73283 (July 30, 2012), Sahuarita Water Company, LLC ("Sahuarita" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGRD") adjustor fee reset.

Decision No. 72177 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGRD for replenishment of excess groundwater. The conditions, as modified by Decision No. 73283, require the Company to submit, by October 25th of each year for Commission consideration, its proposed CAGRD fee for the next twelve-month period (along with documentation from the relevant state agencies to support the

calculations), to apply to all water sold after December 1.¹ The fee for 2019 was approved in Decision No. 77123, on March 13, 2019. The Company made this filing on October 23, 2019, requesting the adjustor reset for usage billed in 2020.

The CAGRD was established by the Arizona Legislature to serve as a groundwater replenishment entity for its members, and it provides a mechanism for designated water supply providers such as Sahuarita to demonstrate a 100-year water supply. Members pay the CAGRD to replenish any groundwater pumped by the member that exceeds specified pumping limits. The CAGRD is recognized as an important tool in Arizona's groundwater conservation efforts.

CALCULATION OF THE CAGRD ADJUSTOR FEE

Decision No. 72177, specified nine conditions regarding the CAGRD adjustor. Condition No. 6 ordered that the adjustor fee be calculated as follows:

The total CAGRD fees paid by the Company for the most current year in the Tucson Active Management Area (AMA) shall be divided by the gallons sold by the Company in that year to determine a CAGRD adjustor fee per 1,000 gallons.²

In addition, although the Decision did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the annual adjustor reset. This understanding was confirmed by the Commission's provision for a true-up in Decision No 72204.³

The Company proposes a rate of \$2.13 per thousand gallons ("kgal"). Staff has reviewed the Company's proposed calculations and the supporting documentation submitted with its request. Staff concurs with the Company's proposed rate. The current rate is \$1.69 per kgal.

True-up

The Company had an existing under-collection of (\$57,733.45)⁴. Sahuarita reports that the under-collection is based on the prior year's amount to be collected of \$846,784.70⁵ and the total collections and interest through September 30, 2019 of \$789,051.25⁶.

¹ Decision No. 73283, page 3, lines 3 - 5.

² Decision No. 72177, page 41, lines 15 - 17.

³ Decision No. 72204, page 2, lines 1 - 7.

⁴ Company's application dated October 23, 2019.

⁵ Company's application dated October 23, 2019.

⁶ Company's application dated October 23, 2019

Adjustor Fee

The CAGRD invoice to Sahuarita for 2018 indicates the total fee due of \$986,160.60⁷. The Company proposes a per kgal adjustor charge of \$2.13, based on water produced of 490,327.90⁸ kgals.

Staff agrees with the Company's calculation of \$2.13 per kgal. Staff's calculation of the new CAGRD adjustor fee is shown below.

a. 2018 CAGRD invoice	\$ 986,160.60
b. Plus 2018 cumulative under-collection	<u>57,733.45</u>
c. Amount to be recovered [a+b]	1,043,894.05
d. Total water sold in 2017 kgals (1,000 gallons)	<u>490,327.90</u>
e. Charge per kgal (1,000 gallons) [c ÷ d]	<u>\$ 2.13</u>

CONCLUSIONS AND RECOMMENDATIONS

Staff concludes that the Company has duly filed the appropriate request to revise the CAGRD fee, as required by Decision No. 73283.

Staff recommends approval of the CAGRD adjustor fee in the amount of \$2.13 per kgal as proposed by the Company.

Staff recommends that the Company file, within 7 days of a Decision in this matter, a CAGRD adjustor fee tariff consistent with the rate approved herein.

Staff recommends that the Company notify its customers of the CAGRD adjustor fee tariff approved herein within 30 days of the effective date of the Decision.



Elijah O. Abinah
Director
Utilities Division

EOA:TDP:red\WVC

ORIGINATOR: Tanya Pitre

⁷ Company's application dated October 23, 2019.

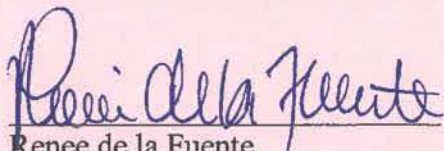
⁸ Company's application dated October 23, 2019.

On this 31st day of December, 2019, the foregoing document was filed with Docket Control as a Utilities Division Memorandum & Proposed Order, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

Ms. Marian Homiak
Sahuarita Water Company, LLC
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Tucson, Arizona 85712

Ms. Robin Mitchell
Director & Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
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Consented to Service by Email

By:


Renee de la Fuente
Administrative Support Specialist

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 ROBERT "BOB" BURNS

Chairman

3 BOYD DUNN

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 JUSTIN OLSON

Commissioner

6 LEA MÁRQUEZ PETERSON

Commissioner

7 IN THE MATTER OF THE APPLICATION)
8 OF SAHUARITA WATER COMPANY, LLC)
9 FOR APPROVAL OF A RATE INCREASE.)

DOCKET NO. W-03718A-09-0359

DECISION NO. _____

ORDER

**CAGRD ANNUAL ADJUSTOR FEE
RESET**

12 Open Meeting
13 January 14 and 15, 2020
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 **Background**

18 1. On October 23, 2019, pursuant to Decision No. 72177 (February 11, 2011), and as
19 modified by Decision No. 73283 (July 30, 2012), Sahuarita Water Company, LLC ("Sahuarita" or
20 "Company") filed with the Arizona Corporation Commission ("Commission") the Company's
21 proposed Central Arizona Groundwater Replenishment District ("CAGRD") adjustor fee reset.

22 2. Decision No. 72177 authorized the Company to implement an adjustor mechanism,
23 subject to certain conditions, to recover the costs paid to the CAGRD for replenishment of excess
24 groundwater. The conditions, as modified by Decision No. 73283, require the Company to submit,
25 by October 25th of each year for Commission consideration, its proposed CAGRD fee for the next
26 twelve-month period (along with documentation from the relevant state agencies to support the
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calculations), to apply to all water sold after December 1.¹ The fee for 2019 was approved in Decision No. 77123, on March 13, 2019. The Company made this filing on October 23, 2019, requesting the adjustor reset for usage billed in 2020.

3. The CAGR D was established by the Arizona Legislature to serve as a groundwater replenishment entity for its members, and it provides a mechanism for designated water supply providers such as Sahuarita to demonstrate a 100-year water supply. Members pay the CAGR D to replenish any groundwater pumped by the member that exceeds specified pumping limits. The CAGR D is recognized as an important tool in Arizona's groundwater conservation efforts.

Calculation of the CAGR D Adjustor Fee

4. Decision No. 72177, specified nine conditions regarding the CAGR D adjustor. Condition No. 6 ordered that the adjustor fee be calculated as follows:

The total CAGR D fees paid by the Company for the most current year in the Tucson Active Management Area (AMA) shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons.²

5. In addition, although the Decision did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the annual adjustor reset. This understanding was confirmed by the Commission's provision for a true-up in Decision No 72204.³

6. The Company proposes a rate of \$2.13 per thousand gallons ("kgal"). Staff has reviewed the Company's proposed calculations and the supporting documentation submitted with its request. Staff concurs with the Company's proposed rate. The current rate is \$1.69 per kgal.

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¹ Decision No. 73283, page 3, lines 3 - 5.

² Decision No. 72177, page 41, lines 15 - 17.

³ Decision No. 72204, page 2, lines 1 - 7.

True-up

7. The Company had an existing under-collection of (\$57,733.45)⁴. Sahuarita reports that the under-collection is based on the prior year's amount to be collected of \$846,784.70⁵ and the total collections and interest through September 30, 2019 of \$789,051.25⁶.

Adjustor Fee

8. The CAGR D invoice to Sahuarita for 2018 indicates the total fee due of \$986,160.60⁷. The Company proposes a per kgal adjustor charge of \$2.13, based on water produced of 490,327.90⁸ kgals.

9. Staff agrees with the Company's calculation of \$2.13 per kgal. Staff's calculation of the new CAGR D adjustor fee is shown below.

a. 2018 CAGR D invoice	\$ 986,160.60
b. Plus 2018 cumulative under-collection	<u>57,733.45</u>
c. Amount to be recovered [a+b]	1,043,894.05
d. Total water sold in 2017 kgals (1,000 gallons)	<u>490,327.90</u>
e. Charge per kgal (1,000 gallons) [c ÷ d]	<u>\$ 2.13</u>

Conclusions and Recommendations

10. Staff concludes that the Company has duly filed the appropriate request to revise the CAGR D fee, as required by Decision No. 73283.

11. Staff recommends approval of the CAGR D adjustor fee in the amount of \$2.13 per kgal as proposed by the Company.

12. Staff recommends that the Company file, within 7 days of a Decision in this matter, a CAGR D adjustor fee tariff consistent with the rate approved herein.

13. Staff recommends that the Company notify its customers of the CAGR D adjustor fee tariff approved herein within 30 days of the effective date of the Decision.

⁴ Company's application dated October 23, 2019.

⁵ Company's application dated October 23, 2019.

⁶ Company's application dated October 23, 2019.

⁷ Company's application dated October 23, 2019.

⁸ Company's application dated October 23, 2019.

14. Staff recommends that the CAGR D adjustor fee be approved effective with the date of the Decision in this docket.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Approval of the proposed CAGR D adjustor fee is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the CAGR D adjustor fee as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Sahuarita Water Company, LLC to implement a revised CAGR D adjustor fee is approved for all customer billings for water sold after December 1, 2019.

IT IS FURTHER ORDERED that the CAGR D adjustor fee for Sahuarita Water Company, LLC shall be \$2.13 per 1,000 gallons.

IT IS FURTHER ORDERED that Sahuarita Water Company, LLC docket with the Commission as a compliance matter, within seven (7) days of the effective date of this Decision, a CAGR D adjustor fee tariff consistent with the rate approved herein.

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1 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC shall notify its customers
2 of the CAGR D adjustor fee approved herein within 30 days of the effective date of this Decision.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN BURNS COMMISSIONER DUNN COMMISSIONER KENNEDY

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COMMISSIONER OLSON COMMISSIONER MRQUEZ PETERSON

12 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of this
15 Commission to be affixed at the Capitol, in the City of
16 Phoenix, this _____ day of _____, 2020.

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MATTHEW J. NEUBERT
18 EXECUTIVE DIRECTOR

19 DISSENT: _____

20
21 DISSENT: _____

22 EOA:TDP:red/WVC
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1 Sahuarita Water Company, L.L.C.
2 Docket No. W-03718A-09-0359

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4 Sahuarita Water Company, LLC
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14 **Consented to Service by Email**